

# ACCOUNTING CONVERGENCE ON ECONOMIC CRISIS

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*If normalization accounting is the process of harmonizing the presentation of financial statements, accounting methods and terminology, accounting convergence is the process by which accounting standards are developed in a way that is able to lead to the same fact or purpose, by highlighting the similarity of national - regional - international.*

*This paper put in light the importance of the normalization and harmonization process, what it's done in and what we have to do for that in Romania.*

*Keywords: accounting, globalization, convergence*

*JEL: M41*

## **Introduction**

The contemporary accounting phenomenon has features based on the need or harmonization, convergence, compatibility and unity in book-keeping, seen also as general objectives of this field, which could be realized only by its normalization. The main phenomena governing the process of current accounting reform worldwide are: normalization, harmonization, convergence, conformity and accounting internationalization. These phenomena act both individually, and through a mutual inter-conditional relationship. The accounting convergence is the process of elaboration of accounting norms in a manner able to lead to a similar fact or goal, by stressing the similarity between national - regional - international levels.

A second reason leading to the harmonization/convergence of accounting systems are the desire for unity among conditions of competition in various countries. A synthesis of phenomena and aspects which could be considered as causes leading to the need for international accounting harmonization/convergence includes:

- the economies encountering an accelerated process of globalization;
- the requests from financial accounts users (a factor determined from the first one). Thus, we shall aim towards a unity of economic language and accounting as an instrument of communicating information;
- the extension process of the European Union;
- the phenomenon of capital markets globalization. The growth and globalization trend of large companies' activities lead to a great number of foreign companies purchases. This in turn led to an increase of their financial needs, leading in the end to the development of international capital markets.

The fundamental issue of accounting harmonization/convergence is also related to the reliability mark for the accounting activity as a whole. The statement is based on the users' level of trust regarding the occurrence that the same public company, for the same period, in different countries, has different figures about the size of their own capitals and results, as a result of complying with the regulations in force in these respective countries.

## **Implications of convergence on accounting system**

Analysing what has been stated before, the harmonization/convergence of international accounting is a positive phenomenon, and its realization is determined by the current evolution of the economic life in general, and accounting in particular.

The events characterizing the beginning of the third millennium show that the process of market globalization is not enough to create the desired economical and socio-cultural development. The economic balances request this process to be a unitary one.

Within this dialogue, using, generally, the economic language, and specifically, the accounting language to communicate needs unity not only in thought, in the conceptualization of methods for organizing and managing companies, for administering and controlling their operation, but also in the accounting principles and methods for elaboration and presentation of financial accounting balances.

The globalization is a forced adventure, while the harmonization, convergence of accounting norms can be considered as its corollary. The production of accounting norms did not commence and, naturally, will not end with the one realized by IASB, it is centuries old and has been defined as a form of expressing political power (we remind you that even since 1673, the great political figure Jacques-Baptiste Colbert, theoretician of mercantilism and protectionism, introduced in France financial book-keeping rules, subsequently included in France Commercial Code from 1807).

“To converge” means “to direct towards the same point, to the same goal”. In the field of accounting, convergence is a relatively new concept, being employed once the objectives of the International Accounting Standards Board (IASB) were defined, one of them being “to aim towards convergence in national and international accounting norms, with the goal of offering high quality solutions”.

The idea of convergence implies a approach, certain members of the Board being responsible for following the connections with the national, public or private, normative organizations in big countries which can have their own opinion at any given time (United States of America, Great Britain, France, Germany, Japan, Canada, Australia and New Zealand), in order to analyze the exigency of norms as compared to those issued by the national normalizing partners.

In this context, the national and international intercessions have as a target realizing a convergence between national and international norms.

Convergence does not mean however the failure of accounting harmonization, but an obvious intercession aimed towards using an appropriate communication in a globalizing context, with the goal of having a common reference, International Financial Reporting Statements, while the short term goal of convergence is to eliminate the individual differences between US GAAP and the current IAS IFRS. Within this short term project, FASB analyzes various issues and either suggests alterations in the American norms, in order to eliminate the differences found, or it communicates to IASB the reason for which it decided not to alter the provisions of US GAAP, while at the same time IASB is carrying on a process of revising IFRS, taking, as the case may be, the same measures as FASB.

The IFRS reference, that the convergence is aimed to, employs a certain accounting philosophy, novel for many companies, related to fundamental principles within a conceptual framework, with no connection to the legal or fiscal influences. In order to keep the accountants' perceptions, a decision was taken stating that, starting with January 1st, 2005, only the marked companies should apply the IFRS reference in its current form. While five years ago we had a serious reticence when discussing the creation of a common accounting language, today things are, in our opinion entirely different.

A study with the goal of identifying the stage of convergence between national accounting references and IFRS showed the significant progress seen in 2003, that is, before the decision of the 91 countries which authorized or imposed the application of IFRS starting with January, 1st, 2005. But future studies should not exclude the hindrances encountered by the accounting convergence:

- The complexity of certain norms, mainly those regarding the financial instruments and, generally, any norm stating the recognition of the actual value, a very sensible issue in our opinion;
- Any national accounting reference bears, in one form or another, the mark of fiscal grounds;
- Accountants training, translation of norms and interpretations.

Convergence of accounting for Romania will assume a single set of standards and Romanian professional accountant will therefore be required to become a man who has the right to think, to reflect the accounting treatment of each transaction, to deepen the processes and phenomena that have to find in financial reporting have the right to choose between several types of accounting treatment, i.e., will be entitled to use professional reasoning. European integration may have consequences for the two types of accounts in Romania. The first of them are positive. An advantage of convergence is the communication in a single language that provides a high level of trust and increase opportunities of access to capital markets and allows multinational groups to apply accounting principles common to all branches. He discussed more content convergence with International Financial Reporting Standards, and concluded that broke away was that it is essential and more accounting information users want to see done. The basic desire is to remove the accounting guidance in Romania to provide more information to one user, namely the state. This aims to introduce a new open system professional judgments transparent financial statements and accounting rules compatibility with IAS / IFRS.

Convergence of accounting for Romania to be accepted as a phenomenon "physical" that it is pointless to try to challenge or passing; but must necessarily understand it, in terms of advantages and disadvantages, also. Especially for small nations, as is the case of Romania, understanding and implementation of accounting convergence phenomenon will make the difference between winners and losers.

### **Conclusions**

Convergence is not an easy thing! Even the president of FASB declared that the greatest challenge of the convergence process was to persuade the national business communities about the necessity for an international accounting language. Even if Securities Exchange Commission (SEC) and the multinational companies in the USA are privileged by this convergence, the small companies and the family level businesses are less happy. Perhaps people don't like change in general, preferring rather to keep their status quo.

It is thought that the convergence process will be a long and expensive one, mainly due to the large number of differences between the US GAAP and IAS, but, if realized correctly, this process will mean an important international success. The path will not be easy and will have to deal with "revolts", and we hope that the disputes between IASB and the European banking and insurance industries, regarding the financial instruments accounting, as well as the decision of the European Commission to delay the application of IAS 32 and IAS 39 would not have a negative influence over the international accounting convergence process.

Romania is the irreversible processes of standardization and convergence aimed at production and communication of financial information relevant, reliable, comparable language to use a joint account all categories of users. If Romania fails to move quickly, will be the certainly left the bar. Integration into the EU could mean a switch to an acceptable level to IAS / IFRS. The future will show whether, in the context of European integration, convergence will be obstacle or incentive for change in accounting in our country.

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